



**Testimony of
General Vice President
Robert Roach, Jr.**

**International Association of Machinists
and Aerospace Workers
9000 Machinists Place
Upper Marlboro, MD 20772**

**Before the
House Subcommittee on Health, Education, Labor & Pensions**

**“The Proposed Delta/Northwest Airlines Merger:
The Impact on Workers”**

July 30, 2008

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Thank you, Chairman Andrews and members of this Subcommittee for the opportunity to speak to you about the important issue of worker’s pensions. My name is Robert Roach, Jr., General Vice President of the International Association of Machinists and Aerospace Workers (IAM), the largest airline union in North America. I am appearing on behalf of International President R. Thomas Buffenbarger. The IAM represents more than 160,000 active and retired airline workers in almost every job classification, including flight attendants, ramp service workers, mechanics, customer service, reservation agents and office employees.

I know the value of a defined benefit pension and the vital role of the Pension Benefit Guaranty Corporation (PBGC). As a former TWA employee, my pension from the PBGC is \$212.00 per month for thirty years of service. The TWA employee pensions were frozen and later terminated. This amount reflects decades of poor airline management decisions and failed mergers. As a

participant of the PBGC, I know the importance of ensuring this vital agency remains solvent. Tens of thousands of former airline employees receive reduced pension checks from the PBGC because of early terminations.

I am here to try and prevent IAM members from Northwest Airlines from losing pension benefits promised to them by Northwest management. This would occur if the PBGC were forced to administer Delta and Northwest's frozen pension plans. In addition, if the PBGC were forced to assume an additional \$5.7 billion in pension shortfalls from Delta and Northwest on top of the \$3 billion of pension shortfalls it has already absorbed from Delta's terminated pilot pensions, it could cause a collapse of the PBGC.

Pension Failure

The IAM has great concern about the loss of pension benefits if the proposed merger is successful, which is far from a certainty. With high fuel prices, admittedly limited synergies and a history of failed airline mergers, the Machinists Union and many industry analysts are extremely skeptical about this merger's chance for success. If the combined giant airline fails and needs bankruptcy court protection, like the two separate companies sought on the same date in 2005, the frozen company-sponsored pension plans could be thrust upon the PBGC. This would burden the PBGC with more than \$15.6 billion in liabilities on top of its \$13.1 billion deficit for fiscal year 2007.

The steel industry dumped \$9.4 billion of liabilities on the PBGC, followed by \$18.6 billion in airline pension shortfalls the PBGC has already absorbed. Faced with the possible collapse of pensions in the automotive manufacturing industry, the PBGC's future looks very unstable.

The federal government is scrambling to rescue the grossly underfunded Fannie Mae and Freddie Mac. The same may be needed for the PBGC. Unlike Fannie Mae and Freddie Mac, who have access to the public markets as a source of revenue, the PBGC's only funding comes from premiums paid by plan sponsors and the assets of the terminated plans that it administers.

If the PBGC can no longer meet its obligations and it doesn't receive a federal bailout, states and cities will be greatly burdened by current and future retirees seeking aid through welfare programs. Pension sponsors, not taxpayers, should be required to live up to their pension promises.

Congress created the PBGC to act as a safety net for companies that could not meet their pension obligations. Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) stated that part of the PBGC's mission is "to encourage the continuation and maintenance of defined benefit pension plans." A merger between Delta and Northwest Airlines jeopardizes not only the vested

and future defined pension benefits earned by the airlines' employees, but also puts the financial integrity of the PBGC itself at risk.

Northwest Pensions

When Northwest entered bankruptcy, the majority of IAM members were earning pension benefits in a company-sponsored defined benefit pension plan. Under bankruptcy protection, Northwest froze all of its pension plans, preventing employees from accruing any future pension benefits. The frozen Northwest plans are currently \$2.9 billion underfunded.

As a result of difficult negotiations and our members' sacrifice in other areas, Northwest's IAM-represented employees are the only group at the airline with an active defined benefit pension plan.

The contribution rate paid into the IAM National Pension Plan provides a known, PBGC-insured benefit. Benefits are expected to increase in subsequent non-bankruptcy contract negotiations. Additionally, benefits have a tendency to increase as the plan redistributes overfunding to participants. This is in contrast to airline sponsored plans that siphoned any overfunding years ago to benefit the carriers, not the plan participants, causing the crisis that resulted in frozen and terminated plans.

Delta Pensions

Delta employees in comparable job groups to Northwest's IAM members also had their defined benefit pension plan frozen when their company was in bankruptcy. However, because these Delta employees were not members of the Machinists Union they had no options but to accept Delta's unilateral decision. Delta's frozen pension plans are underfunded by \$2.8 billion, in addition to the terminated pilot pension that was \$3 billion underfunded when it was taken over by the PBGC.

Delta employees are currently earning no pension plan benefits. They have only a 401(k) defined contribution plan that puts all the investment responsibility and risks on the employee. As this committee knows, defined contribution plans are not insured by the PBGC and provide no guaranteed benefit. What benefits there may be upon retirement are susceptible to market fluctuations and personal investment choices. That is why a defined benefit pension is so important, as Congress clearly recognizes by their participation in such a plan.

Delta's Empty Promises

Delta's CEO testified before the House Transportation and Infrastructure's Aviation Subcommittee that when his airline combines with Northwest, Delta will

“maintain the existing pension plans of both companies.”¹ However, he has been silent on how he is going to continue the defined pension benefits IAM members are currently accruing at NWA and extend it to their Delta counterparts.

The only way for Delta CEO Richard Anderson to keep the promise he made to the Aviation Subcommittee is through Delta’s participation and contributions to the IAM National Pension Plan. That is only possible if the IAM is allowed to extend our representation to Delta employees.

The Machinists Union has an aggressive organizing campaign underway at Delta, but CEO Richard Anderson’s steadfast refusal to remain neutral and the airline’s historically aggressive anti-union stance may cause Northwest employees to lose a pension plan for the second time. This task is even more daunting because airline workers organize under the Railway Labor Act (RLA). Under the RLA, 50%+1 of eligible employees in a group must cast a ballot for an election to be valid. For example, if there is a union representation election and the Machinists Union receives 100% of the votes cast, but only 50% of the eligible workers participate by casting ballots, the workers will remain non-union. If that happens in an election as a result of the Delta/Northwest merger, Northwest workers will become at-will employees, lose their defined benefit pension plan and more than 60 years of collective bargaining gains.

¹ Testimony of Richard Anderson, May 14, 2008, House Transportation and Infrastructure Committee, <http://transportation.house.gov/hearings/Testimony.aspx?TID=6018&NewsID=609>

Delta and Northwest have made commitments to employees, but these commitments are unenforceable and the airline will not be held accountable. If the combined airline wants to make true commitments, they should stop interfering with Delta employees' right to organize, and make their commitments part of collective bargaining agreements that protect employees at the combined carrier.

Seniority

Delta has said that it will integrate seniority fairly, and that they are required to do so under the law. But what does "fairly" mean? There are no less than five recognized methods for "fair and equitable" integration of airline seniority lists.

1. The surviving group principle, where the acquiring company's employees receive seniority preference over the acquired employees;
2. The follow-the-work-principle, where seniority is allocated by a ratio of what assets each individual airline contributed to the combined company;
3. The absolute rank principle, where employees retain their respective rank on the newly mergers seniority list;
4. The ratio-rank principle, where a ratio of the employees of each group to be merged are assigned places on the combined seniority list according to a ratio of total employees.

5. The length of service principle, where all employees are combined by their current seniority date, regardless of which airline they came from.²

Fairness is in the eye of the beholder, and what Richard Anderson deems fair is not important. We need to focus on what employees consider to be fair.

The Merger

The Northwest-Delta merger proposal will reduce service, increase fares, eliminate jobs and negatively impact communities across the country. It is ridiculous to imagine a larger, combined airline can be profitable when both of these individual airlines are already shedding jobs, planes and routes in order to survive.

A generally unspoken consequence of a Delta-Northwest merger will be the loss of defined pension benefits for 12,500 IAM members at Northwest Airlines. The Machinists Union has been aggressive in negotiating defined benefit pension plans for our members in the airline industry. In spite of airline-sponsored pension plans being terminated or frozen, the IAM has successfully negotiated the multi-employer IAM National Pension Plan for our members at several airlines, including United Airlines, US Airways and Northwest Airlines.

² *How Arbitration Works, Sixth Edition* Elkouri, Elkouri, Reuban; BNA Books, p.868-870

The IAM National Pension Plan is a completely separate entity from the Machinists Union, and is overseen by a Board of Trustees made up of an equal number of employer and union-appointed members.

The IAM National Pension Plan has more than 1,750 contributing employers, 113,000 active participating members and \$9 billion in assets. Unlike the few other pension plans remaining in the airline industry, the IAM National Pension Plan is 113% funded and provides real retirement security for our members.

The IAM National Pension Plan is designed for people working under IAM contracts. If this merger is approved over our objections, we hope to extend the benefits of the IAM National Pension Plan when our IAM members combine with Delta's employees. However, if Delta launches another assault on their employees' legally protected right to collectively bargain and the IAM does not represent employees at the combined carrier, as Delta hopes, workers will no longer be able to participate in the IAM National Pension Plan.

Summary

Pensions are not perks offered by airlines – they are deferred compensation for decades of maintaining a 365-day-a-year, 24-hour-a-day operation. Our members' pension benefits are proudly earned through hard work at reduced wages in exchange for promised retirement income.

Northwest's IAM-represented employees have enjoyed the benefits of a secure union work environment for more than 60 years. They labored for the day when they could retire with some dignity and financial security. The ill-advised Delta-Northwest merger will jeopardize everything they have worked for while destroying two once-great airlines and threatening the solvency of our nation's pension insurance agency.

I look forward to your questions.